

Cost and Price

OR THE

Product and the Market

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AN ANALYSIS OF THE NATURE OF COSTS AND AN IN-
QUIRY INTO THE ORIGIN OF PURCHASING POWER
AND CREDITS SHOWING THEIR LIMIT IN PAY-
ING THE PRICE OF PRODUCTS AND THE
EVER INCREASING NECESSITY FOR MUNIC-
IPAL AND INDUSTRIAL BOND ISSUES



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CHAPTER IX.

REDEEMABLE CREDIT CURRENCY

In political economy, those business interests which are in decadency and tending to obsolescence are, next to conflicting financial interests, the most difficult to measure in fair consideration. The trouble with decadency arises from the fact that decadent interests impel self preservation by attempting to prevent economic evolution. Financial interests in decadency must oppose or unload upon those in the ascendant, or else suffer loss. This being a matter of self preservation, it becomes a part of natural law and therefore, a matter to be condoned rather than condemned.

With the development of greater security in commerce, there is a tendency toward decadency and possible obsolescence in the necessity for intrinsic value in money. There now is evidence of a tendency to such *monetary nausea* against the acceptance of gold as formerly existed against silver, and which led to the demonetization of silver. Many men, believing that both gold and silver should be demonetized, consistently supported silver coinage in their belief that both should be retired together without discrimination in favor of or against either. Modern commercial activity requires active money, with flexibility rather than elasticity. This requirement has forced gold into the security class, yet—as a security—it can be no more to the purpose than bonds which command a premium over gold in the open market.

The only advantage that gold, as a security, can have over bonds which command a premium over gold is that

in times of financial distress the gold is legal tender while the bonds are not; yet, since financial distress comes only with unbalanced commerce resulting in unbalanced banking, to so regulate costs as to maintain balanced commerce would eliminate financial distress and, therefore, the need of gold as security and legal tender. If the use of gold as money is tending to decadence, it is but natural that those who have large financial interests invested in gold should use every effort to retain its coining value and its monetary use—or, as in the case with silver, unload the responsibility of gold values upon the people at large through the medium of the national Treasury. For the government to become custodian and the eventual owner of the national supply of gold would relieve personal loss if the mechanical demand for gold failed in sustaining its coinage value. On the broad principle that the government is the people, the economic loss—if any—to the government in the coinage value of gold would be balanced in the gain to the people of lower priced gold for mechanical uses. But this is intended only as a consideration of a contingency in commercial evolution, and not as a prediction or even a suggestion that gold be suspended in monetary use.

From whichever point the matter is viewed, gold is not a convenient or profitable currency. It is too expensive, costing but a fraction less than 100 per cent more than paper currency based on security that will command a premium over gold in the open market. As a security for paper currency, gold can not exceed its coin value, while to use it as such security is to lose its economic interest as money, since its paper representative will command no advantage in interest or discount over currency secured by what commands a premium over gold. As gold represents a 100 per cent cost to the owner—the borrower—and in circulation, for it to remain idle as a mere security must result in a loss of interest by inaction, since the actual investment lies in the gold; while with paper cur-

rency, secured by bonds, the investment lies in the basic value of the bonds, in which case the currency can remain idle without loss in interest on investment principal.

In a sense, gold lies in pawn. It is an idle investment lying in pawn as a security to meet contingencies which occur only at rare intervals, and, if a contingency occurs, the gold will be so hedged and guarded as to render it impossible as a currency when currency is most needed in commerce. It is much as it might be with a farmer who, using a team of two horses, keeps a third horse in the barn to meet the contingency of an accident to one of the team; after years of feeding the contingency occurs and demonstrates that the reserve is too balky to do the necessary work. Just as the cost of feeding the reserve horse, together with loss on idle investment, will exceed the price of the horse, so has the loss on the idle investment in gold exceeded the full value of all gold which was in use as security in 1888.

This may seem a rash statement, but consider it fairly. Take the gold existing in the United States in 1888. Compare it as security with bonds which command a premium over gold. The gold constitutes an investment which is unelastic and just equals itself. The bonds represent and are a first lien on an investment several times their face value. The gold is rigid, non-productive, and inactive as security. The bonds, not being the real investment, represent activity which produces their interest margin. Gold being the investment, when used as security, the whole investment is idle. Bonds, not being the real investment, when used as security cause no part of the investment to become idle. As the gold certificates in circulation have no advantage as currency nor as security over national bank notes and treasury notes, it must be deduced that all gold lying in pawn as security is but idle investment, since no advantage to commerce is gained by such use. Therefore, with the gold of 1888 lying in

pawn for fifteen years on a 4 per cent basis, the interest loss equals 60 per cent of its coin value, while there has been a loss in its purchasing power of fully 40 per cent when compared with average commodity prices and the advance in landed investments. While this loss, equaling the full coin value of gold, is only a negative loss, compared with active investments, it is real. But, as a loss, it has been neutralized in banking as a cost which has been paid in rates on commercial accommodations. Since price must cover costs, the loss to banking from the dead weight of its gold must be added in rates and unloaded upon manufacturing and commerce.

However this may be, this comparison between gold and high class bonds as securities for currency circulation must not be mistaken for an argument in favor of using bonds for such purpose, nor as an argument against the continued use of gold.

Broadly and loosely speaking, it may be said—conditionally—that the function of money is to balance commercial exchange. To receive money is ordinarily the first half of exchange, spending it the second half; and the exchange is balanced. The first half consists of the effort of one to realize satisfaction and the recognition by others of the value of the effort. The second half consists in the realization of the object of the effort and the acknowledgement by the one of the assistance rendered by the others. The recognition and the acknowledgment were in money, the money being received and paid out before the exchange was balanced and satisfaction realized. As money in exchange represents what one has parted from and stands for what one anticipates in satisfaction of necessity or desire, it is really the evidence of unbalanced exchange,—since, when exchange is fully balanced, money has been received and paid out.

Money being accepted only in full faith that it will exchange for what will satisfy necessity and desire, must

be redeemed by commerce and in commercial commodities; and this principle applies to gold coin as well as to any other form of currency. The ultimate redemption of money must be in receiving it in payment for commodities or for taxes; so, if commerce and government must redeem all money, commerce and government should issue all currency instead of it being issued by those who hold the bonds of commerce and government. If industrial bonds and government and municipal bonds are sufficient in security for a currency issue when in the hands of brokerage, why are they not sufficient in security for a currency issue when in the hands of commercial banking and in the treasuries of the government and of the municipalities without the "rake-off" cost of the intermediate brokerage?

To provide against an uncertain contingency is frequently the surest way to bring it about. And this is true with convertible funds and moneys. We have always had periodical depressions in business activity, caused by unbalanced exchange developing into overdue deferred payments. These depressions will continue to occur, so long as unnatural costs enter into commercial balances and the funds generated by production and commerce are drawn away from their support by speculative investments. Money has nothing whatever to do with causing the depression, but our system has all to do with causing the accompanying panic. Instead of a system which teaches and compels a confident reliance in the basic value of credit instruments, we have provided for safety in instantaneous conversion of credit instruments. In time of real need, our credit system is much like an army which, advancing against the enemy, so completely provides every detail for safety in retreat as to destroy confidence in its ability to win a battle. Basic value of the credit is overlooked in the possibility of immediate convertibility. That credit instruments of different basic securities be

interchangeable in commerce and banking, it is unnecessary to compel that one be converted into another or into its own basic security. We only make the depression worse by attempting to convert our credit instruments. People rush to the banks to withdraw their deposits, while banks are skirmishing for gold and for paper payable in gold on demand. With banks fearing the people more than the people fear the banks, this leaves the banks in no position to handle the natural and absolutely safe funds of manufacturing and commerce—funds based on actual products.

The credit instruments in English banking are based on commercial products and are interchangeable with gold. Our credit instruments are based largely on bonds and inert values and are convertible into gold—in legal theory if not in actual possibility. With the same relative funds, England finances the price of her commerce, while we attempt to finance the price of our commerce and also the price of the earth. And this, too, regardless of the fact that debt-paying funds can be generated only by production and commerce.

There are two ways in which money may be cheap: first, by being of such low credit value that much money is required to buy little, and so cause reluctance in accepting it on deferred payments; second, while it may be of high credit value, by entering circulation at a low cost rate to commerce it fulfills its functions without embarrassment and necessitates but slightly increased prices on commodities. The first would be the cost of the money itself; the second would be the cost of its circulation. With gold costing—as an investment—100 cents on the dollar, and with paper currency, say, 2 cents on the dollar, there should be a better margin in both commercial banking and in commerce if paper currency is used at a 2 per cent rate than with gold at a 10 per cent rate. But a 2 per cent rate would be possible only with actual staple

products as security—as is the case with English commercial banking.

It is frequently asserted that our system of currency lacks elasticity. This is true, but the reason lies in the nature of the security and in the theory that it is redeemable in gold. The security being a fixed investment, the currency becomes as much an investment principal as is the security; so, to circulate, it must be *loaned* into circulation at interest instead of being *sold* into circulation by the necessity of commerce. The difference between being loaned and being sold into circulation is the rate of interest paid while in circulation. The obligation of redemption being the security of the currency, and interest on loans being payable in the currency itself, the currency becomes redeemed through the payment of interest on time loans; thus leaving the obligation of ~~the~~ borrower unredeemed, and with a waning circulation or an increasing volume of loans and deferred payments. That our currency can circulate only under interest rates makes of it an investment principal, or the substance of private estates, while the interest rates negative redemption obligations. By redeeming currency through the interest rates on itself, the security of the borrower must be increased with increasing indebtedness, since the security of the loan becomes a debt while the currency is circulating by virtue of new loans only.

This principle in our currency renders it a debt-creating force instead of a debt-paying possibility. While industry is seeking means to free itself of debt, the very nature of the currency forces it further into debt, since each loan calls for more money to be returned than is borrowed, while industry is not permitted to manufacture money with which to pay debts.

From this viewpoint of commercial needs, we really have no system of money. From the viewpoint of brokerage, we have the best secured credit money ever issued

in any country, for—being founded on secured indebtedness—it is better suited to loans and investments than to commercial needs. Being an investment in itself, it can circulate only at a high cost to commerce, which has need of a currency based on the staple commodities of commerce. The needs of commerce require a currency which will conform to the following rules:

First,—It should be absolute in its security, so confidence will be maintained with no interests compromised in receiving it and no loss resulting from holding it.

Second,—It should be positive and automatic in both issue and redemption, that its volume may adjust itself to expansion and contraction in varying commercial needs.

Third,—It should bear relationship to production and commerce in the origin of its issue, that production be assisted by paying for products in its circulation and by cancelling debts in its redemption.

Fourth,—It should be free from interest-bearing debtor obligations during time of circulation, so that no part of its volume will be retired by interest payments on itself or its security and thus be insufficient in redemption to meet the full obligation of its issue.

Fifth,—It should be local in issue and in redemption, with volume proportioned to local needs and proportionate to the issue of other localities, so that no locality will be favored in the relative privilege and volume of issue when measured by the varying interests and needs of each and every locality.

Sixth,—It should carry no privilege with its issue that can give any person or corporation any advantage over any other person or corporation in their productive and commercial interests, that the volume shall be proportionate and the issue and redemption be equal and fair to all persons and localities according to population and commercial interests.

Currency which would conform to these rules can be obtained in two different ways without materially changing present laws or banking system. One way would be to use staple certificates—warehouse certificates—as security for a commercial banking currency. The other way would be to reverse our present order of taxation,—first pay public expenses with an issue of *tax currency*, then levy a tax equal to the issue and so collect and cancel the whole issue.

Such staples as wheat, cotton, pig metals, coal and lumber have a value based upon the immutable average of human necessity. Others might be mentioned, but two will do for illustrations. Wheat and cotton, more so than any other staples, fall a dead weight upon commercial credits, since a full year's supply for the whole world comes on at once, while practically no part of either crop is put to any use in feeding or manufacturing by the producers. Corn is converted largely into meat and milk on the farm; lumber is often converted into finished products by those who own the stumpage; while pig iron and coal and other raw materials are often put through further processes of manufacture before leaving producers. But, using wheat and cotton for illustration, we find producers who have a full year of labor, capital and credit tied up in a vital supply which others must have but will not need for months to come. The immutable law of necessity makes of these staples a more perfect security than first mortgage bonds on the best portion of the earth itself, since they must realize within the year on 50 per cent value, while the bonds will realize only 4 per cent. While the staple products constitute commerce itself and the life of commercial banking, the bonds are a matter of investment and brokerage, yet have a 4 per cent advantage over gold as a security for currency. That staple products are vital, compels their value; that they must be on the market for a long average of time, necessitates that

they receive assistance during their period of floating in transition; that they increase in price by the force of economic interest, makes of them the highest class of credit assets; that they are certain of sale to supply unavoidable necessity, makes of them the most reliable security for a credit currency, since realization on their value is a certainty.

Our wheat and cotton are dumped upon the market at threshing and ginning time to become the footballs of gambling speculation in order to induce funds to their support. The producers must realize in order to balance the accommodations which they have received and to start the next crops. To warehouse these crops and issue certificates against a major per cent of their value, with the certificates a legal security for a *crop currency*, would enable these crops to finance themselves as well as to finance their producers. It would encourage production and solve the problem of "rural banks." Other staples can be given the same consideration if conditions compel a long period between production and ultimate consumption. But, in using these staple certificates for currency security, the banks issuing the currency must be entirely separated from brokerage so that crop funds can not be absorbed by speculative investments. While it may not be necessary for the bank in all of its interests to be free from brokerage, yet there should be an absolute division and separation between its commercial funds and its brokerage transactions, as much so as if it were two separate banks.

Such currency could circulate without being loaned into circulation, for—originating with the necessity for it and retiring with the security—it performs its functions without creating debts in either origin, use or retirement. And, being free from debtor obligations in its circulation, it would circulate at such low cost to commerce that but little of its volume would be retired by interest payments

on itself. One trouble with our present currency is that as it circulates only on loans and as all loans call for more money to be paid back than is loaned, its circulation necessitates a constantly increasing volume in order to pay the principal of the loans plus interest.

To make this more plain, it is best to revert to the "debtor" and "creditor" conditions—previously mentioned—and broaden the sense in which they were used:

All obligations, and whatever is subject to compulsion in self maintenance, must be debtor in law and in economics. All legalized demands, and whatever can compel what is necessary to its maintenance, is creditor in law and in economics. So, since production is compulsory to the maintenance of productive capital, manufacturing and commerce rest within the debtor condition of economics. Therefore, royalties, franchises and special privileges rest within the creditor condition of economics. From controlled natural resources, exploiting permission is granted to productive capital; and, from the special privilege of money issue, currency is allowed to commerce,—thus making them creditors. Yet, while some interests rest within the creditor and some within the debtor condition, there are interests both private and corporate which balance between the two.

For instance, a man or corporation owns a tract of timber land, also a logging equipment and a sawmill. The latter are productive capital which will deteriorate both materially and financially if not actively employed in their intended purpose. That they are dependent upon the timber for their employment, makes them debtor to the timber,—since the timber may increase in increment without the sawmill and the logging equipment. The timber, being independent of the lumbering plant, is a creditor, and its price is a credit to be loaned or sold as best suits the finances of the owner. Whether one party owns the timber and another party owns the lumbering

plant, or whether one party owns both, the timber nevertheless is creditor and the plant debtor in their relative conditions.

The same principle applies to the merchant's stock of goods in relation to rent lease. If he fails to sell sufficient goods—and at prices which include his rent costs—the rent absorbs his stock capital. But, in this application, a distinction must be made between that portion of the rent which satisfies the value of the site and that which maintains the store room, for the capital of the store room is debtor to the site, since the store room must obtain the rental value of the site. And, also, any advance in the amount of rent would be an advance in the land value of the site and not in the value of the store room,—since, by deterioration, the store room should rent for less as time tends to its decadance.

While the stocks and bonds of a railroad represent a conditional joint ownership, yet the management — the stocks — are debtor to the bonds. It is all a matter of economic conditions and not a matter of persons, since one person may have profitable interests in each condition and so gain from one what he may lose by the other—whenever there chances to be loss and gain.

So, in considering an issue of credit currency, and recognizing these two conditions, the question arises, from which of these conditions shall the currency issue?

It can be said that the creditor condition is able to provide the best security, since it holds a lien upon the debtor condition and can make manufacturing and commerce stand and deliver when redemption of the currency is desirable. That is all too true, yet, when it is considered that basic securities must be productive in order to have value as securities, it will be seen that the products and not the producing properties constitute the real security. The value of a farm is in its crops, the value of a railroad is in the quantity of its transportation, the

value of a factory is in its output of products; and all are in the debtor condition because production is compulsory to their value—even as securities. So, to allow the creditor condition to issue the credit currency would be to obtain only an indirect lien upon the real value for its security and redemption. The real object of the currency being to encourage production by assisting to carry products forward into ultimate consumption sales, by basing the currency directly upon the products, it can precede the products in the payments of wages and then be redeemed by the products when the wage earner supplies his real needs. It is very simple in principle, but very complex in practice.

But, when currency is considered, the banking which is to handle the currency must be considered also. And here the creditor and debtor conditions arise again. Commercial banking lies within the debtor condition, while brokerage banking lies within the creditor condition. Commercial banking consists in adjusting and balancing the credit instruments of those who are compelled to make good or suffer loss. Brokerage banking consists in adjusting and investing the credit instruments of those who have made good in concrete estate. One associates with growing assets, the other with concrete assets. For commercial banking to issue currency on the credit instruments of production and commerce would be to base the security directly upon the live assets which are generating all wages and profits, and would give to commerce a safe currency which can circulate free from costs other than usual commercial accommodation. And the volume would vary with commercial needs, expanding with the crop seasons and contracting as volume wanes with ultimate consumption. It would be independent of speculative investments. For brokerage banking to issue a currency on the credit assets of concrete estates would necessitate that it be loaned

into circulation in the needs of commerce and at rates which must increase the costs of commerce.

A currency originating in commerce and secured by its live assets would operate with and be controlled by commerce—expanding and contracting with the expansion and contraction of the assets. A currency originating in investment estates would be controlled by investment interests to the detriment of commerce whenever speculative investments were attractive or threatened with loss.

For the value of our staple crops and other staple products to evolve into a currency, would simply be to sell them through the circulation of the currency which represents them. To circulate the currency would be to unload the value of the crops upon the general public in the form of earnings, while the use of the currency in buying the various products of the crops would be the redemption of the currency. The process is the riddle.

Whatever is done along this line must be done through commercial banking; but, as before mentioned, commercial banking must be separated from brokerage banking before it is allowed to assume the privilege and the responsibility of issuing currency. Whatever the process, perfection must not be attempted in one step, but by evolution of what now exists. Whether a clearing house be authorized to receive a certain class of warehouse certificates and commercial paper from its associated banks and issue thereon a class of circulating certificates—to each bank according to its own certificates and paper, or whether it might not be sufficient to authorize a portion of the legal reserve held in reserve centers to consist of clearing house certificates based on warehouse certificates and high class commercial paper—paper representing actual products instead of land and factory values. To do this, the clearing house would necessarily become legalized and compulsorily supported by every bank in its association. With such certificates legalized as a portion of bank reserves and as a

limited legal tender between banks, they would constitute a sub-currency which would free for circulation their volume value of other currency which is not subject to immediate redemption. The principle only is suggested here; the working out must be done by commercial bankers. But, whatever may be done with commercial assets as a currency security, the smaller commercial banks of the country must not be discriminated against in any portion of the privilege by high discount rates or other discrimination. It should be so that currency limit can be quickly reached when necessary. Every provision should be made to eliminate excessive discounts—now purely optional with reserve privilege banks.

But the foregoing would not be a perfect currency either in issue, circulation or redemption. A perfect currency can be obtained only in connection with local taxation. It would require the least change in our present banking machinery, yet it would be liable to greater opposition from banking in general.

A *Tax Currency* could be put into universal circulation by reversing the present system of collecting and paying out the tax funds: first, suspend taxation one year and pay all public dues with tax currency; then collect and cancel in the following tax levy all that was paid out. This would require both national and state legislation to become operative, but the present national bank currency system is a perfect machine by which to put it in operation and for redemption and cancellation. It would be a national currency issued by the general government, but instead of being issued to banks—as in the case of bank notes—it would be issued to the respective states for distribution to each tax locality. Or, if preferred, it could be issued direct to counties and municipalities—in practically the same manner that notes are now supplied to national banks—and become legal tender when signed by

the proper civil authorities, the security being special bonds—state, county, or municipal.

Nor would it be necessary for taxes of any given locality to be collected in the currency paid out in that locality, or even in tax currency. The tax levies in Kankakee and Keokuk could be collected as well in currency paid out in Kalamazoo or Kokomo as in that paid out in their own expenses. All the currency being returnable to the government bureau of issue for cancellation, it would be immaterial what kind of money was received in taxes so long as total tax levies equaled the total amount paid out in public expenses. But, to insure its return for cancellation, it should be limited in its period as legal tender. For instance, the tax currency of 1940 (about the time it will be put in operation) can bear the dates of 1940-1942. It will be paid out in 1940, collectable in 1941, and legal tender during 1942—after which it will be redeemed on presentation at the bureau of issue. And if more currency is desirable, taxes could be suspended for another year, with the time of collection and redemption extended to two years instead of one year, and the legal tender limit be extended from two years to three or four years. This would double the volume in circulation.

Such currency issue would flow into circulation in every locality where organized society has public expenses which must be paid from tax levies. It would circulate without interest costs, so that the volume of issue would equal the volume of redemption,—which could not be possible if the volume of redemption equaled the volume of issue plus interest. Practically the same system could prevail in calling in and cancelling currency that now obtains in retiring and renewing national bank currency. The real difference would be that each state, county and municipality which has received its currency needs, as measured by its expenses, must return to the national bureau of issue the same amount of legal tender that it has received. Any

kind of legal tender would balance the tax account, and what tax currency chanced to be left in circulation after the final tax currency settlement with the bureau of issue would be sent in for redemption by banks and individuals as it neared its legal tender limit. Both issue and redemption would be automatic. All loss of currency, which could not be satisfactorily proven, would inure to the profit of the general government and pay a part of the expense of the issue and redemption.

From the center of the most densely populated cities to the most remote cabins in forests or mountains, there is an average public value in fixed properties, an average commerce, and an average need for public and private funds when measured by the number of individuals in each locality,—providing there is no unnatural obstruction in economics. This is the average of *man value*. In the larger cities, the average value of a man will cover only a few square feet or even only a few square inches of land surface, while in the more remote localities the same average man value will be extended over hundreds and even thousands of acres. The mean average between the man of great wealth and the lowest individual in the city will approximate fairly with the man where neither wealth nor poverty are remarkably evident. While one remote inhabitant may only exist, another may have a superabundance, yet there is the immutable average wherever the same race makes its habitation, varying only with the varying degrees of average civilization prevailing at any time. As one average begets another average, the average of humanity calls for an average in public improvements and in public funds. The average of public needs will average with private needs and also average with the production and commerce of the average community. So a tax currency would issue to every organized community in proportion to its average as a community and in proportion to its public and business needs. If the people of

any organized community desire more money in circulation they must tax themselves to receive it. It would flow into circulation, but—as tax collection will reduce circulation—the collection of taxes should be so timed that the largest volume possible will be in circulation during the crop moving season.

A system of this kind would work a great convenience to local civil government inasmuch as no state, county or municipality can know at the beginning of a year what its necessary expenses will be during the fiscal year. By paying all expenses in a currency which is not money until signed at time of need, there will never be a shortage in funds, while the amount of the tax levy will never be in doubt. And, too, every community will have received a volume of money equal to its tax levy.

In earlier days, in an undeveloped part of the country, the writer has received township warrants, drawn on a treasury as devoid of funds as a pine tree is devoid of pineapples. Later, these warrants were used as money in the payment of taxes. They acted as the currency of the fund they were drawn against. The simplicity and the crudity of that financial transaction has suggested a tax currency. It suggests a currency associated in its origin with the purpose of its use. It suggests also a currency associated in its origin with staple products.

While a tax currency would, in its relation to every individual and to every property interest, be the most equitable of any currency possible, yet it should be supplemented by a currency associated with staple products. The two combined would make it possible to organize farm community credits more perfectly than city credits are now organized.

Currency should be issued as a function and not as property. To use bonds as its security would be to enlarge the proprietary privilege to invest in bonds; it would be but to add a public function to the private estate of

the bond owner by enabling him to invest in more bonds. The currency could circulate on interest payments until redeemed by receipts of interest on the obligations, thus redeeming itself while the secured obligation would become a net addition to the investment principal of the ones who owned the privilege of issuing the currency.

On the other hand, to use staple products as the basic security for currency would be to enable producers to realize on their products prior to ultimate sales, and thus enable them to begin on new products without bonding their plants to obtain the currency issued by the owners of bonds. Manufacturers and farmers must have currency upon completion of their products and pending ultimate sales in order to begin new products. Dealers can not furnish this currency,—nor can the local banks when the time between the finishing of the products and their sale in ultimate consumption is as long as is necessary with staple crops and with manufactured products which enter, through contracts, into permanent construction.

Vital products, floating in transition, are better security than bonds, since the real value of bonds rests upon vital products. From this viewpoint of realization, the vital products have an advantage of from 75 to 90 per cent of actual conversion into the ultimate object. So, if a ninety day draft, signed by a responsible manufacturer and accepted and countersigned by a responsible dealer and endorsed by a bank, is a desirable investment for a "central bank of issue," it should certainly be a desirable asset upon which to base the currency necessary to the business it represents. It should be converted into currency nearer home and save to actual business the "rake-off" discount.